TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on State Legislation	ITEM NUMBER: 8a
	ATTACHMENT(S): 4
ACTION: X	MEETING DATE: July 9, 1998
INFORMATION: ______	PRESENTER: Ms. DuCray-Morrill

State Legislation

1998 Legislative Proposal

Staff recommends that the following legislative proposal be sponsored by the Teachers' Retirement Board. A summary of the problem and proposed solution is attached.

98-06: Excess Earnings

Summary

Staff has prepared the attached analyses and recommended positions on the following measures for the Board's consideration:

Bill Number	Author	Subject
AB-1150	Prenter and Ashburn	STRS Benefits
AB-2804	PER&SS	STRS Benefits

Budget Update

Summary

As of June 23, the Conference Committee on the Budget Bill is still meeting. The only issue related to STRS which is before the Committee is Budget Bill language recommended by the Legislative Analyst's Office (LAO) and adopted by the Senate to require the System to perform a valuation on June 30, 1998 data to be completed by June 30, 1999 instead of waiting until June 30, 1999 data, when the next scheduled valuation is to be conducted. The LAO also recommended that, pending the results of the valuation, the Elder Full Funding contributions be appropriated but not transferred until the valuation is completed. That recommendation has not yet been adopted by the Legislature. Full Funding contributions are not under immediate threat in the budget.

Recommendation

The Staff recommends the Board take no action at this time to deviate from the current schedule for conducting STRS actuarial valuations. Based on this schedule, the next valuation will be conducted on June 30, 1999 data and will be presented to the Board approximately March, 2000. The Board could choose to modify the current schedule at a future date if that action was deemed appropriate.

Status of Board Sponsored Legislation for 1998

Ms. DuCray-Morrill will provide a verbal update at the meeting on the current status of Board-sponsored legislation.

STATE TEACHERS'RETIREMENT SYSTEM
REQUEST FOR APPROVAL OF PROPOSED LEGISLATION

BRANCH: Governmental Affairs and Program Development

DIVISION: Legislation, Planning and Research

PROPOSAL TITLE: Use of Excess Investment Earnings for Supplemental COLAs

PROBLEM:
Although STRS retirees receive annual 2% cost of living adjustments to their allowances, as well as supplemental allowances to restore the purchasing power of their allowances to 75% of the original value of that allowance, retirees still experience declines in the purchasing power of their allowances as prices increase.

PROPOSED SOLUTION:
Authorize the board to distribute excess investment earnings, as determined by the actuary, to provide increased supplemental benefits to further restore purchasing power protection, once a valuation determines that the actuarial obligation of the Teachers' Retirement Fund is fully funded.

SPECIFIC FINDINGS:
Given recent investment returns in the Teachers' Retirement Fund, the next actuarial valuation and experience rating of the fund could determine that the actuarial obligation of the Teachers' Retirement Fund is fully funded, and that employer and employee contributions are sufficient to pay ongoing costs of benefits. Consequently, the Teachers' Retirement Fund would begin to accrue assets in excess of its obligations when its rate of return on investment exceeds the expected rate. These excess earnings could, if permitted by legislation, be used to enhance existing retirement benefits, including providing increased supplemental benefits to further restore purchasing power protection.

FISCAL IMPACT:

Program Costs/Savings: Costs for increased supplemental allowances would be incurred only to the extent that the fund was generating investment earnings in excess of the amount needed to maintain a full funding status. The specific amount available for such allowances would depend on future rates on investment returns, but, according to system actuaries, a 10% rate of return from July 1, 1997 until June 30, 1999 would generate $865 million in available resources from excess earnings attributable to retiree funds, after fully funding the system.

Administrative Costs/Savings: Depending on the level of excess earnings available to pay supplemental allowances, there would be an increase in the number of retirees receiving supplemental allowances. Currently, only those retirees whose current benefit is worth 75% or less of the original value of their allowance receives supplemental allowance payments. Under this proposal, all retirees could receive supplemental payments if the excess earnings were high enough. Staff has no estimate of the administrative cost of issuing those additional payments.

Potential Impact on Other STRS Branches/Divisions:
In years in which excess investment earnings were available to distribute to retirees, additional retirees would receive warrants for purchasing power protection than would receive them under current law. This would affect 108,132 additional retirees if sufficient funds were available to bring all retirees up to 100% purchasing power.

Exhibit A is a detailed discussion of the proposed excess earnings distribution program.

CONCEPTUAL PROPOSAL
ON
USE OF EXCESS EARNINGS

With the actuarial obligation of the Teachers' Retirement Fund nearly fully funded, and with employer and employee contributions sufficient to pay ongoing costs of benefits, the Teachers' Retirement Fund will begin to accrue assets in excess of its obligations when its rate of return on investment exceeds the expected rate. These excess earnings could, if permitted by legislation, be used to enhance existing retirement benefits.

In calculating the level of excess earnings available for such purposes, the STRS actuary would determine, in a valuation study, the level of assets which would be in the Teachers' Retirement Fund if existing assets, adjusted for additional contributions and benefit payments, increased by the expected rate of return (currently 8%). That level, termed the expected actuarial value of assets, would be compared to the actual actuarial value of assets. The difference between the expected actuarial value of assets and the actual actuarial value of assets is equal to the excess earnings, which, under the proposed program, could be used to enhance benefits. The board would determine in each valuation how much excess earnings was available for benefits. Currently, that valuation takes place biennially, although valuations could occur annually. Under the latter circumstances, a level of excess earnings would be identified annually.

One policy decision that would have to be made is whether all or only a portion of the excess earnings should be made available for benefit enhancements. Using all available excess earnings increases the system's ability to increase the ability of the fund to maintain the standard of living when members retire, a priority objective of the board. On the other hand, using only a portion of the excess earnings would provide further protection either for the retirement fund and/or benefits supported by excess earnings in those years in which investment earnings are less than anticipated. For purposes of the recommended design, 50% of the excess earnings generated in any one year could be spent for benefits.

These excess earnings are derived from assets that are attributable to assets that are in the TRF to pay benefits to current retirees and their beneficiaries, and to pay future benefits to currently active members. Consequently, excess earnings would be most equitably used if available for both types of members. The amount of excess earnings available for each benefit would be determined by dividing the amount of excess earnings in respective proportion to the actuarial liabilities for benefits attributable to retirees and active members. In the last valuation study, about 42% of the actuarial accrued liability was associated with retirees. Consequently, until the next valuation, 42% of the excess earnings would be available for supplemental COLAs.

Excess earnings COLA

Under the excess earnings supplemental COLA, in any period in which the board identified excess earnings in the fund, the board would allocate those excess earnings attributable to retiree funds to pay supplemental benefits that increase the allowance paid to a retired member or his or her beneficiary. The total benefit paid to the retiree, including COLAs and purchasing power protection payments, could not exceed the original value of the benefit. The board would determine the present value of paying that supplemental COLA over the adopted funding period, and would effectively segregate that amount in the fund, so that it would not be available to be used for other purposes. If the amount of excess earnings available for such payments were insufficient to restore the resulting allowance to the original value of the benefit, the amount paid would bring all allowances up to the same level of purchasing power. If the amount of excess earnings was greater than the amount needed to restore the full original value of benefits, the remaining amount would be available for use in subsequent years in which either there were no excess earnings, or when such earnings were not sufficient to restore full value. The supplemental COLA would be included in the base against which future 2% COLAs would be based, but would not change the base retirement date for purposes of determining how much purchasing power protection and supplemental benefit payments would be provided.

The benefit to this supplemental COLA, while dependent on the system's rate of investment return, can be substantial. If the amount of excess earnings was 1.95%, and 50% of those funds attributable to retirees was available for this benefit, after 15 years, the amount of the allowance would be over $372 per month higher than would be received from the current 2% simple COLA, and $293 per month higher than would be received if the 2% COLA was compounded.

Summary of conceptual plan design

Conceptually, the use of excess earnings permits the sharing of annual earnings of the Teachers' Retirement Fund which exceed those earnings which (1) were expected for any given year, based on the actuarial investment return assumption and (2) are needed to maintain 100% funding of the system.

Specifically, the excess earnings benefit program would include the following provisions:

- The TRF must be fully-funded prior to initiating the use of excess earnings
- The TRF must maintain a fully funded position thereafter. If the funding condition should decline below 100%, the excess earnings would remain in the fund to restore the 100% funding level

- The board must maintain the asset smoothing methodology used in its actuarial valuations. (Currently, the valuation smoothes the investment return at 25% of the market returns above the expected level.)
- Reserve 50% of the resulting excess earnings to maintain additional funding protection in the TRF, and permit the payment of excess earning benefits in years in which excess earnings are not generated
- Divide the spendable excess earnings funds into 2 accounts, based on the relative amount of actuarial obligations associated with active and inactive members, and retirees.

With the excess earnings associated with retiree funds, the money would be available for a supplemental COLA with the following provisions:

- The amount payable could not result in a benefit exceeding 100% of the value of the original benefit allowance, as measured by the California CPI
- The quarterly purchasing power protection payment paid from the General Fund would be paid before the supplemental COLA
- The supplemental COLA would be included within the base for calculating future 2% simple COLAs, but not subsequent purchasing power protection payments

Assembly Bill 1150, **Assembly Member Prenter** (As Amended 06/22/98)

Position: **Support, if amended (Staff Recommendation)**

Proponents: **CTA (Sponsor), ACSA , CRTA, FACCC, UTLA**

Opponents: **Unknown**

SUMMARY

AB-1150 would incrementally increase the benefit factor of 2 percent at age 60 to 2.418 percent at age 63.

HISTORY

This year's AB-2616 (Prenter, 1998), held in Assembly Appropriations Committee, was identical to this bill. The Teachers' Retirement Board adopted an Under Study position on that bill.

AB-2512 (Epple, 1994), vetoed by the Governor, would have prescribed an increased formula for certain members who retired after June 30, 1995, were over normal retirement age, and had a minimum of 20 years of credited service. The bill proposed a maximum percentage of 2.5 of final compensation per year of credited service at age 65.

AB-1074 (Epple, 1992), vetoed by the Governor, would have increased the age factor from 2 percent to 2.5 percent of final compensation for STRS members who worked until age 65 and had at least 20 years of service.

CURRENT PRACTICE

Under the Teachers' Retirement Law (TRL), a service retirement allowance is paid to eligible members based on three elements: a retiree's service credit, his or her age at retirement and his or her final compensation. The TRL pays an allowance at age 60 equal to 2 percent of final compensation per year of service credit. The earliest age at which a teacher can retire from service with a monthly benefit under the STRS Defined Benefit (DB) plan is age 50, if the member has at least 30 years of service credit. A standard early retirement is available, at age 55, if the applicant has at least five years of credited service. A member retiring at age 55 would be paid 1.5 percent of final compensation per year of service. This initial benefit would increase, for each year that retirement was delayed, until age 60. There is no increase in this age factor for teachers who retire after the age of 60.

DISCUSSION

AB-1150 provides that a member who has attained age 60¼ years or more and who retires for service after January 1, 1999, will receive a retirement allowance, payable in monthly installments upon retirement, equal to the percentage of the final compensation at the member's age at retirement, multiplied by each year of credited service, as follows:

60 ¼	2.034% of final compensation per year of service credit
60 ½	2.068%
60 ¾	2.100%
61	2.134%
61 ¼	2.168%
61 ½	2.202%
61 ¾	2.238%
62	2.272%
62 ¼	2.308%
62 ½	2.346%
62 ¾	2.382%
63 and over	2.418%

This would make the STRS retirement formula the same as is provided to classified school members covered by PERS.

As previously discussed with the Board, the findings of the Retirement Plan Study indicate that the benefit provided by the current STRS DB Plan may not adequately replace the salary earned by STRS members, according to a Georgia State University Study.

The increased formula under the bill for members retiring after age 60 would, however, increase that rate of replacement. Currently, for average members retiring after age 60, with annual wage increases of 5.5%, the STRS allowance equals 58% of the member's final annual salary. This bill increases that replacement ratio to 70% by age 63.

In addition, with the expansion of the class size reduction program, many school districts are hiring more inexperienced, noncredentialed individuals as teachers. The change in the STRS benefits proposed in this bill may offer a longevity incentive and help retain experienced, effective teachers, thereby helping alleviate the teacher shortage. Based upon data presented by the actuary in the June 1997 valuation, an estimated 14,000members are currently active, and are between the ages of 60 to 64 and 11 months with four or more years of service credit. An estimated 5,248 are currently active at age 65 and over with four or more years of credited service, for a total of 19,248.

The bill does not contain a funding source in its current form. The bill should be amended to provide funding from either increased employer contributions or a General Fund appropriation.

FISCAL IMPACT

Program - The bill would result in a total contribution rate increase of 2.228 percent of payroll, or $364,278,000 annually, with the unfunded obligation component amortized over 30 years.

Administrative - $150,000 one-time cost, of which $100,000 is absorbable within existing resources. START Project costs are undetermined at this time

RECOMMENDATION

Staff recommends the Board adopt a position of Support, if amended to provide funding on AB-1150. The benefit increase proposed in this bill would provide a measure of increase toward achieving a higher replacement ratio for STRS retirees and would act as an important component of addressing the shortage of credentialed teachers in California.

Assembly Bill 2804, **Assembly Public Employees Retirement and Social Security Committee (As Amended 5/13/98)**

Recommended Position: **Support (Staff Recommendation)**

Proponents: **California Federation of Teachers**
Faculty Association of California Community Colleges
California Teachers Association
California Retired Teachers Association
Association of Retired Teachers
Association of California School Administrators

Opponents: **None known**

SUMMARY

This bill would provide that when the Teachers' Retirement Fund (TRF) has been fully-funded, as indicated by the Teachers' Retirement Board's actuary, an amount equal to 4.3 percent of prior year teacher payroll shall be appropriated from the General Fund (GF) to the TRF for the payment of any benefit increases and for other educational objectives that have been approved by the Legislature. The funds for other educational objectives shall only be available until January 1, 2004. The funds appropriated for the purposes of this bill shall be included within the GF revenues appropriated for school districts and community colleges.

HISTORY

Senate Bill 1370 (Chapter 460, Statutes of 1990), converted the indexing of prior GF funding provisions, commonly referred to as "AB-8" contributions, from a flat rate indexed with the California Consumer Price Index (CCPI) to a level percentage of prior year teacher payroll and established the Elder State Teachers' Retirement System Full Funding Act (EFF).

Specifically, "AB-8" (Chapter 282, Statutes of 1979) contained two components. First, AB-8 amended the State's limited-term appropriation of $144.3 million for 30 years to a perpetual appropriation which was cumulatively increased or decreased beginning with the 1980-81 fiscal year by an amount which reflects the change in the CCPI. The second component was an ever-increasing appropriation of $10 million in 1980-81 graded-up to

$280 million in 1994-95. The $280 million would then be indexed by the CCPI starting in 1994-95.

EFF provided instead, effective July 1, 1991, that GF contributions to the State Teachers' Retirement System (STRS) be based on teacher payroll as recommended by STRS' consulting actuary. 4.3 percent of prior year payroll was estimated to be necessary to fund the TRF within a reasonable time frame (45 years) and was applied first to satisfy the normal cost deficit before applying the remaining contributions to amortize the unfunded actuarial obligations.

Attached is a more comprehensive discussion of the History of STRS funding. (ExhibitA)

CURRENT PRACTICE

Existing statutes, the Elder State Teachers' Retirement System Full Funding Act (EFF) provides that:

a) a continuous appropriation be made annually from the General Fund to the Teachers' Retirement Fund equal to 4.3 percent of prior calendar year teacher payroll. The appropriation shall be calculated annually on October 1 and shall be divided into four equal quarterly payments. The percentage shall be adjusted annually, up or down by 0.25 percent but in no event higher than 4.3 percent, to reflect the contribution required to fund the normal cost deficit when the unfunded actuarial obligation has been deemed to be eliminated.

b) the funds transferred pursuant to a) above shall first be applied to meeting the normal cost deficit, if any

c) the funds transferred are in lieu of the state's contributions previously made under "AB-8".

d) the "normal cost deficit" shall not include the cost of benefit increases which occur after July 1, 1990.

e) the state acknowledged that the contributions required from EFF were less than "AB-8" in the short term. However, the Legislature stated its intent that <u>EFF shall provide the retirement fund stable and full funding over the long term.</u> (Emphasis added.)

f) declares that EFF continues in effect but in a somewhat different form, fully performs, and does not in any way unreasonably impair, the contractual obligations of CTA. v. Cory.

g) EFF shall not be applicable to any unfunded liability resulting from any benefit increase or change in contribution rate that occurs after July 1, 1990.

DISCUSSION

Current law, the Elder State Teachers' Full Funding Act (EFF), provides a GF funding mechanism to fully fund the Teachers' Retirement Fund (TRF). Specifically, EFF was designed to address two significant funding issues: first, the normal cost deficit and secondly, the unfunded actuarial obligation.

EFF provides that the funds transferred shall first be applied to meeting the normal cost deficit, if any, for that fiscal year. EFF further provides that the funding percentage (4.3) shall be adjusted to reflect the contribution required to fund the normal cost deficit when the unfunded actuarial obligation has been deemed to be eliminated by Board. <u>If a rate</u> increase or <u>decrease is required, the adjustment may be for no more than 0.25 percent per year</u> and in no case may the transfer exceed 4.3 percent.

Attachment 3, Exhibit B reflects the history of the normal cost deficit and the unfunded actuarial obligation from 1972, when legislation put STRS on a pre-funded basis, through 1990 when EFF was enacted. The Exhibit further demonstrates the decline in both the unfunded actuarial obligation and normal cost deficit from 1990 to 6-30-97, the date of the most recent valuation.

EFF statutes also stipulate that the GF appropriation shall not be applicable to any <u>unfunded</u> <u>liability</u> resulting from any benefit increase or change in contribution rate that occurs after July 1, 1990.

The June 30, 1997 valuation of the Defined Benefit Plan (DB Plan) concluded that the TRF was 97.3 percent funded with only a three-year amortization period remaining. Therefore, STRS would expect to be fully funded by June 30, 2000, assuming all assumptions used in the current valuation are realized. In addition, STRS no longer has a normal cost deficit.

The EFF states that upon achieving full-funding, the GF appropriation cannot be adjusted by more that 0.25 percent per year regardless of whether a normal cost deficit exists or not. Consequently, under EFF, once the unfunded actuarial obligation is eliminated, and if there is no normal cost deficit, the GF appropriation as a percentage of payroll will begin to decline by .25 percent per year. In the absence of a valuation that indicates that the actuarial accrued obligation is eliminated, however, the Legislature cannot appropriate funds for EFF and withhold the transfer of funds to the TRF pending a valuation.

AB-2804 makes various findings and declarations regarding, in part, the shortage of qualified teachers in California; the need for improved retirement benefits for teachers, the fact that STRS is very close to being fully funded based on the last valuation of STRS; and that it is the intent of the Legislature that the law provide retirement benefits which are competitive with other states.

The bill then adds a new subdivision to the EFF statute to provide that, notwithstanding EFF, when the TRF has achieved full funding, an amount equal to 4.3 percent of prior year payroll shall be continuously appropriated from the GF to the TRF for the payment of any benefit increases and for other educational purposes that have been approved by the Legislature. The benefit increases shall be consistent with those stipulated in the intent of AB-2804.

AB-2804 does not specifically provide for any increased benefit; therefore, other authorizing legislation would have to be enacted before increased benefits would be realized.

Regardless of the interpretation of existing EFF statutes and the adjustment of the appropriation, the stated intent of AB-2804 is consistent with the Board's position to increase benefits with adequate funding. A recent study conducted by STRS discussed the adequacy of the benefit provided by the STRS Defined Benefit Plan (DB plan) by using replacement ratios to measure the percentage of final compensation needed to continue the pre-retirement standard of living. The study also compared the benefits provided by STRS to those provided by the retirement plans of seven other western states including the California Public Employees' Retirement System. The study demonstrated that STRS benefits do not compare favorably with the other retirement plans in the study.

FISCAL EFFECT

Under EFF, the TRF will receive about $650 million in 1998-99 from the GF, with annual amounts increasing (as payroll levels increase) each year until the unfunded actuarial obligation is eliminated. Once the unfunded actuarial obligation is eliminated, and if the normal cost continues to be less than 16%, the GF contribution as a percentage of payroll will decline by .25% annually, until it is eliminated 17 years later. AB-2804 maintains the current 4.3 percent GF contribution, regardless of the status of the normal cost deficit. Consequently, AB-2804 increases resources to the TRF from the GF contribution by about $38 million (based on 1997-98 payroll levels) beginning in the first fiscal year that the fully funded status of the TRF is identified, with that amount increasing by at least an additional $38 million annually each year thereafter for 17 years, when the effect of AB-2804 levels off at $650 million (adjusted for increased current payroll levels).

RECOMMENDATION

The staff recommends the Board support AB-2804. This bill provides the funding for new benefits to be determined.

TEACHERS' RETIREMENT BOARD WORKSHOP ON FUNDING AND BENEFITS JUNE 3, 1998

On July 1, 1913, the Public School Teachers' Retirement Salary Fund was established by the California Legislature as a function of the State Board of Education. STRS was created to provide California teachers with a secure financial future during their retirement years and also to provide an incentive for them to stay in teaching their entire working careers.

PART I - Funding History

1913

When the retirement plan was founded in 1913, the California public school teachers were granted retirement service credit for the service they had performed prior to that date. No contributions were required from either teachers or employers for the retirement credit which was granted for service performed prior to the establishment of the System on July 1, 1913. This caused the retirement plan to have an unfunded obligation from the very beginning.

- Members were required to contribute $12 per year.
- Employers made no contribution.
- State contributed 5 percent of the inheritance tax revenue for each fiscal year.

1935

- Member contributions were increased to $24 per year.
- Employers commenced a contribution of $12 per year per employee.
- State continued to pay 5 percent of the inheritance tax.

1944

- Member contribution changed to a percentage of salary depending on age at membership. The rate varied from 2.53 percent to 4.95 percent.
- Employer contribution rate continued at $12 per year per employee.
- State's contribution rate was replaced by a pay-as-you-go funding mechanism. Under this approach, the State annually appropriated the amount needed over and above the current years' employer contribution to pay the pension portion of all allowances currently being paid.

1950, 1951, and 1955

- Member contribution rates were increased in these years up to a range of 5.77 percent to 10.15 percent.
- Employer contribution remain unchanged.
- State pay-as-you-go funding remain unchanged.

1956

- Member contributions were increased to a range of 9.53 percent to 13.52 percent.
- Employer contribution rate of $12 per year per employee was augmented by a 3 percent of salary contribution to be used on a pay-as-you-go basis to pay for current benefits. (The 3 percent contribution was limited by the assessed valuation of the school district. Because salaries grew faster than the assessed valuation, the percentage of payroll declined year by year.)
- State's pay-as-you-go funding remain unchanged.

1959

- Member contributions decreased.
- Employer contribution remain unchanged.
- State's pay-as-you-go funding remain unchanged.

1962

- Member contribution rate decreased to a range from 6.52 percent to 11.86 percent.
- Employer contribution remained unchanged.
- State's pay-as-you-go funding remain unchanged.
- The unfunded actuarial obligation was up to $3.6 billion.

1972 - E. Richard Barnes Act

In 1970 estimates indicated that the State's pay-as-you-go annual appropriation would grow from $71 million for fiscal year 1967-68 to $245 million for 1979-80 and $635 million in 1989-90. As the allowance rolls grew at an accelerating rate, it was believed that the System could not look forward with any certainty to continued receipt of the ever increasing State appropriation. Legislation, effective July 1, 1972 established the E. Richard Barnes Act and radically changed the funding of STRS to long-range reserve funding (pre-funded basis).

- Member's variable contribution rate, which was averaging 7.4 percent, was changed to a flat 8 percent of salary

- Employer contribution rate was averaging 2 percent in 1971-72 because of the assessed valuation limitation. The contribution rate was changed to a matching 8 percent of salary level.

It was anticipated that this 16 percent total employee-employer contribution would fund future service in the redesigned program. However, to obtain passage of the program, the employer contribution was graded-in from 3.2 percent in 1972-73 up to the full 8 percent in 1978-79. This alone reduced the System's long term income by $1.8 billion.

- State's pay-as-you-go contribution was replaced with a level $130 million per year for 30 years to amortize the cost of benefits in force as of June 30, 1972. The cost of all prior service for current members was not funded and resulted in the System's unfunded actuarial obligation at that time. -- Another $5 million for 30 years was added to the $130 million to repay the STRS reserves for a shortage in the 1971-72 State contribution.

1976

- Member contribution rate remains at 8 percent.
- Employer graded-in contribution rate remain unchanged.
- A $9.3 million state appropriation was added to the $135 million appropriation for a total $144.3 million annual appropriation. This increase was specifically tied to an ad hoc benefit increase.

1979

- As part of a major education financing bill in 1979, the Legislature addressed the funding of the STRS unfunded actuarial obligation, "AB-8", by then Assemblyman Leroy Greene. First, the State's limited term $144.3 million annual appropriation was changed to a perpetual appropriation which was to be cumulatively increased or decreased beginning with the 1980-81 fiscal year by an amount which reflects the change in the California Consumer Price Index (CCPI) in the preceding fiscal year.

The second component was an ever increasing appropriation of $10 million in 1980-81 graded-up to $280 million in 1994-95. The $280 million would then be indexed by the CCPI starting in 1994-95. Initially the new funding was to have been $100 million commencing in 1980-81 with CCPI indexing beginning in the 1981-82 fiscal year. It was necessary, however, to change to the graded-in appropriation to obtain Legislative approval of the unfunded obligation funding.

In 1990-91, AB-8 contributions totaled approximately $475 million; $275 million from the first component and an additional $200 million from the second component. This represented approximately 4.6 percent of payroll at that time, however, future years contributions were a declining percentage of payroll estimated to be just above 2 percent by fiscal year 2032-33.

1980

- 0.307 paid directly to STRS from GF (General Fund) to fund an ad hoc benefit increase for pre-6-30-73 retirees. No sunset date on funding.

1981

- 0.108 paid directly to STRS from GF to fund an ad hoc benefit increase for pre-1-1-80 retirees. Funding sunset date 12-31-96.

1985

- Permanent funding of 0.25 percent was provided for unused sick leave. Contributions come to STRS directly from employers, however, the GF augments districts budgets by a like amount.

1989

- 2.5 percent funding stream for purchasing power.

1990

Another "fix" was viewed as critical to stem the ever growing unfunded actuarial obligation. When "AB-8" was enacted in 1979 it was an attempt to improve the funding of STRS, specifically a reduction in the unfunded actuarial obligation. STRS, however, continued to operate with a normal cost deficit which was at 0.94 percent or approximately $130 million in 1990. The normal cost deficit had, for years, continued to roll new debt into the unfunded actuarial obligation. Attachment 1 demonstrates the progression of both the normal cost and unfunded actuarial obligation.

The STRS consulting actuary in 1990 recommended the Board support legislation to change the indexing of the then "AB-8" contributions from the CCPI to the ratio of total teacher payroll in the previous year's payroll. Projections conducted by the actuary at that time indicated that the "AB-8" indexing to CCPI methodology would allow the unfunded actuarial obligation to grow without limit. If indexing were changed to teacher payroll, the unfunded actuarial obligation would continue to grow for about 25 years but at a slower rate then begin to decline and be eliminated in about the 39th year.
Calculations conducted in 1990 indicated a level 4.2 percent of prior teacher payroll would be sufficient to fund the unfunded actuarial obligation within a reasonable period - 45 years - and stem the normal cost deficit. Negotiations in the deliberation of the new indexing resulted in suspending all GF contributions for one year (1990-91); therefore, the GF contribution was increased to 4.3 percent to fund the additional liability without further extending the funding period.

The Legislature passed and the Governor signed into law the Elder State Teachers' Retirement Full Funding Act to provide a GF appropriation of 4.3 percent of prior year payroll to fund first the normal cost deficit then any remaining unfunded actuarial obligation.

Attachment 2 demonstrates the GF contributions to STRS under the E. Richard Barnes Act, AB-8 , and EFF. The net result is a savings to the GF of nearly $1 billion. This is due to phenomenal investment return over the last 12-13 years and lower than anticipated liabilities. Projections indicate it would have taken 14 years to recoup these contributions, Attachment 3.

PART II - Membership

All certificated public school teachers, teaching superintendents, "supervising executives, or educational administrators" automatically became members of the new system from inception.

Benefit Structure

1913

- The initial retirement pension was $500 per year, and paid in quarterly installments of $125.
- A teacher was required to have 30 years of teaching service--at least half of which, including the 10 years prior to retirement, was in California schools.
- Eligibility for disability benefits required 15 years of California teaching service and benefits were pro-rated for actual years of service.
- Survivor benefits were not provided under the original benefit structure.

1935

Benefit levels remained essentially unchanged until 1935:
- Retirement benefits increased to $600 a year.

1944

The first of several major redesigns to the System resulted from legislation passed in 1944:
- Disability benefits were improved and all retirees with 30 years of credited service were guaranteed a minimum retirement allowance of $60 per month.
- Age 63 was established as the normal retirement age with specified reductions for early retirement starting at age 58.
- Vesting changed from 30 years to 10 years of service.

1950's

Benefits were broadened in the 1950’s:
- Normal retirement age was dropped from 63 to 60, and the early retirement age from 58 to 55.
- First death benefit program established, with benefits fixed at one month’s salary for every year of service (up to a maximum of six months salary/six years of service).

- In 1953 the minimum retirement allowance was raised from $60 to $170 per month (for those who retired at age 60 or older with 30 years of credited service).

The second major redesign occurred in 1956:

- Benefits were now calculated based on a fixed percentage (1.667 percent) of final compensation for each year of credited service rather than on accumulated earnings. The new calculation method tied benefits to changing economic conditions (final compensation) and not fixed-dollar values (amount of accumulated contributions).

- In 1958, vesting reduced from 10 years to its present five-year minimum.

- In 1959, the first Survivor Benefits program to provide continuing benefits for the dependent children and spouses of deceased members.

1960's

- No benefit increases implemented, however, significant administrative efficiencies accomplished.
- The first STRS tax-sheltered annuity program was created in 1963.

1970's

Benefit rolls grew at a rapid pace, but benefit values fell and STRS was faced with a $3.6 billion accrued liability. Dramatic change was needed, and the E. Richard Barnes Act was established.

The Barnes Act established the basic benefit structure as summarized below.

- Benefit formula: 2 percent of final compensation at age 60.
- $2,000 lump sum death benefit.
- Family Allowance program.
- Disability benefit: 50 percent of final compensation.
- 2 percent simple cost-of-living-adjustment.

In 1979, ad hoc benefit increase for members who retired prior to 6-3-73.

1980’s

- Minimum unmodified allowance guaranteed at no less than $16/month for each year of service credit for pre-1-1-81 retirees.

In 1981, minimum unmodified allowance guaranteed at no less than $18/month for each year of service credit for pre-1-1-82 retirees.

<u>1989</u>

- Funding Stream for purchasing power benefits

<u>1992</u>

STRS' Disability and Survivor Benefits programs were restructured to comply with the federal Older Workers Benefit Protection Act (<u>Betts</u>):

<u>Survivor Benefits</u>

<u>Lump Sum Death Benefit (Coverage A)</u>: A $5,000 lump sum death benefit. Is increased following each biennial actuarial valuation based on changes in the All Urban California Consumer Price Index.

<u>Survivor Benefit (Coverage B)</u>: A $20,000 lump sum death payment upon the death of an active member. Is increased following each biennial actuarial valuation based on changes in the All Urban California Consumer Price Index.

- The surviving spouse has the choice of receiving either a monthly allowance or a return of the member's contributions plus interest.

Both Coverage A and Coverage B provide a $5,000 lump sum death payment upon the death of a STRS retiree.

<u>Disability Benefits</u>

<u>Disability Allowance (Coverage A)</u>: Member who qualifies for a disability allowance receives the allowance as long as the disability exists up to age 60. At age 60, the allowance is terminated and the member is eligible to apply for service retirement. A disability allowance may continue beyond age 60 only if there are eligible children and the member remains disabled.

<u>Disability Retirement (Coverage B)</u>: Is mandatory for all STRS members hired on and after October 16, 1992. A member who qualifies for a disability retirement allowance is considered retired and receives the allowance as long as the disability remains, without respect to age. Upon return to full-time employment or if the member is found to be no longer disabled, the allowance is stopped and the member is reinstated to membership.

Conclusion

This creates a number of potential funding sources for benefit increases:

Based on the 6-30-97 valuation, STRS is anticipated to be fully funded by 6-30-00 if all current assumptions are realized providing a unique opportunity for STRS to focus on increasing benefits.

1. Earnings in excess of those needed to maintain full-funding are likely to occur in many, of the years subsequent to achieving full-funding. Refer to Attachment 4. In addition, STRS receives funding from two sources that will no longer be needed for their intended purpose when the TRF has achieved a 100 percent funded ratio. As identified in Attachment 5, STRS receives 0.250 percent for unused sick leave and 0.307 percent for an ad hoc benefit increase to pre-7-1-73 retirees. These benefits will be fully funded; therefore, the funding could be redirected to other benefits.

These funding sources may be used in a number of ways, specifically,

a. continue to improve the funded ratio (over that needed to maintain full funding)
b. adjust contribution rates
c. increase benefits
d. fund all or a portion of health benefit premiums for the retirees pursuant to Internal Revenue Code section 401(h)

Absent a change in law to the contrary, all future earnings of the Teachers' Retirement Fund will be applied to improving the funded ratio of STRS. Therefore, upon achieving 100 percent funding, the Teachers' Retirement Fund would soon become overfunded.

2. New General Fund appropriation for benefit increases:

Upon reaching 100 percent funding, the appropriation required for Elder Full Funding could be redirected to fund additional benefit increases with appropriate legislation. This would not increase the GF funding commitment over the current funding obligation; therefore would not increase GF costs. This is the concept embodied in AB-2804.

3. Supplemental Benefit Maintenance Account

Current statutes provide a funding mechanism for purchasing power benefits, however, this funding is not vested. Therefore, the Legislature could terminate this funding at any time.

There are several pieces of legislation that could be identified to provide the new benefits, e.g.:

AB-884	compounded COLA
AB-1102	unused sick leave
AB-88 Rule of 85	
SB-1528	Health Benefits study

The issue the Board must address is what is in the best interests of the membership at that point. As noted previously, while many improvements have been made to the overall well-being of the TRF and the membership, there has not been any significant benefit increase in 25 years. As demonstrated by the Retirement Plan Study conducted by staff, STRS benefits lag behind those of seven western states and the current STRS benefit does not provide an adequate benefit as defined by the Georgia University Study.

Recommendation

Staff recommends the Board, sponsor or support efforts to obtain the following funding sources for benefit increases upon achieving full funding:

1. Sponsor legislation to obtain legislative authority to 1) distribute excess earnings to the benefit of members and employers, and 2) apply the 0.250 percent and 0.307 to benefit increases.

STRS would continue to maintain a prudent reserve for funding the TRF in years in which the System does not earn the actuarial assumed interest rate. This is accomplished in part by the asset smoothing methodology adopted by the Board and incorporated into all recent actuarial valuations. Funding for benefits in this manner will not adversely impact benefit increase bills that have been introduced by other parties.

Excess earnings could be defined by a benchmark based on earnings over the actuarial assumed interest rate. A precise definition would be further defined at a later date with input from the consulting actuary.

2. Support redirecting Elder Full Funding to fund new benefit increases. This concept is embodied in AB-2804. Staff has not completed its analysis on this specific piece of legislation, however, the concept should be endorsed. The benefit increases would require authorizing legislation (identified above).

3. Support or sponsor legislation to vest the GF contribution stream for purchasing power benefits.

Staff further recommends the Board continue to support funded benefit increases.

History of Unfunded Actuarial Obligation and Normal Cost Deficit

Valuation Date	Unfunded Actuarial Obligation	Normal Cost Deficit
7/1/72	(E. Richard Barnes Act Effective)	
7/1/72	$4.275 billion	3.93%*
7/1/74	$5.347 billion	2.28%*
6/30/75	$7.648 billion	4.38%*
6/30/77	$8.549 billion	2.73%*
6/30/79	$9.953 billion	3.18%
6/30/81	$13.197 billion	3.22%
6/30/83	$11.530 billion	3.56%
7/1/85	$10.945 billion	1.88%
6/30/87	$10.236 billion	1.31%
6/30/89	$10.939 billion	1.19%
6/30/91	$11.099 billion	1.46%
6/30/93	$8.369 billion	1.17%
6/30/95	$8.184 billion	0.07%
6/30/97	$1.872 billion	0.21% excess

* Based on graded employer contribution rate.

Funding History and Comparison of Elder Full Funding to AB8

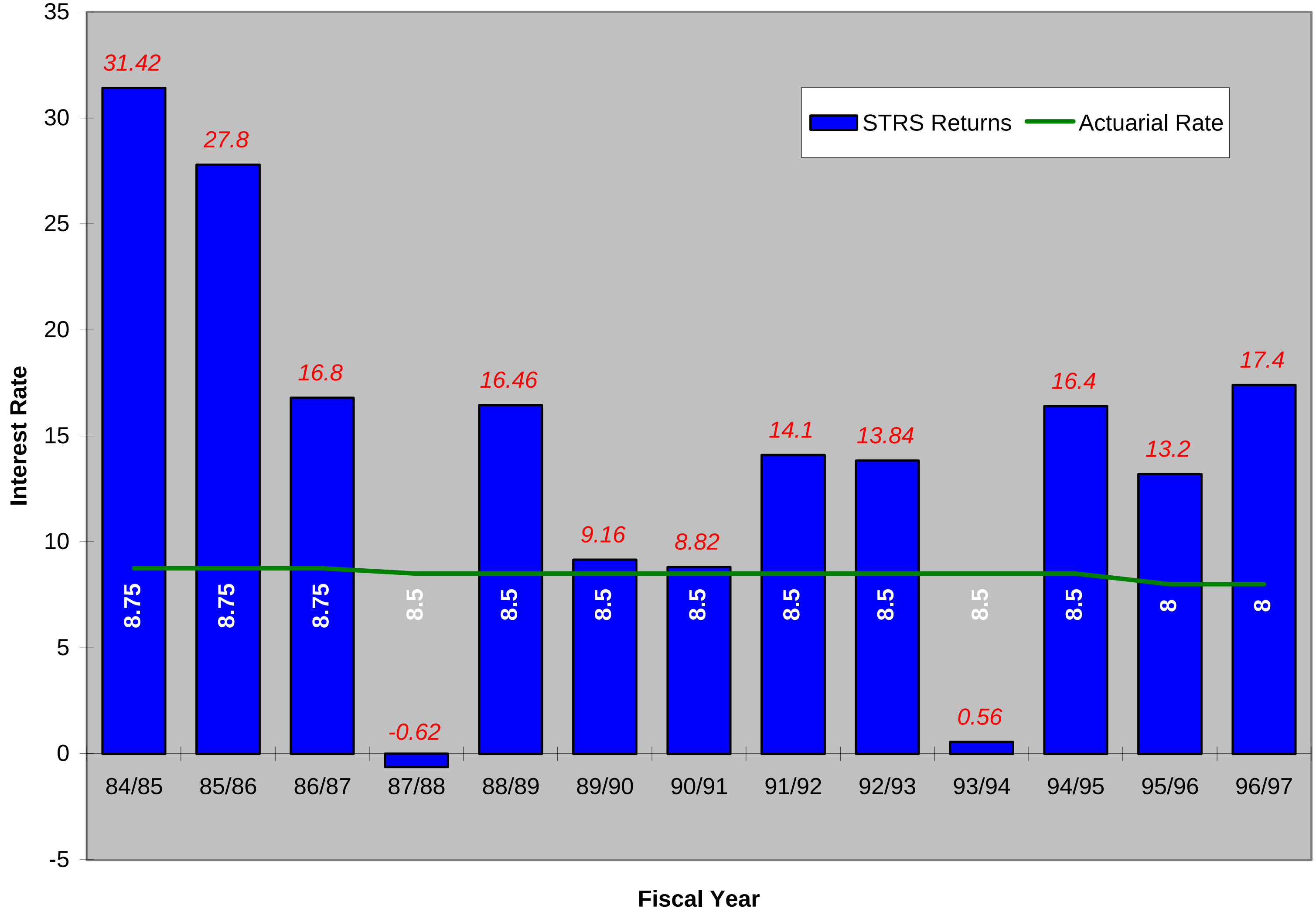
Fiscal Year	June CCPI	Education Code Section 23401	Education Code Section 23402	Education Code Sections 23401 + 23402 Total	Actual Elder Full Funding (EFF) Contribution	Comparison EFF vs. AB8
1972-73 through 1979-80 funding identified as the Barnes Act						
1972-73	42.7	$135,000,000	$0	$135,000,000		
1973-74	47.1	$135,000,000	$0	$135,000,000		
1974-75	52.0	$135,000,000	$0	$135,000,000		
1975-76	55.2	$135,000,000	$0	$135,000,000		
1976-77	59.5	$144,300,000	$0	$144,300,000		
1977-78	64.6	$144,300,000	$0	$144,300,000		
1978-79	71.0	$144,300,000	$0	$144,300,000		
1979-80	83.3	$144,300,000	$0	$144,300,000		
1980-81 through 1989-90 funding identified as AB8						
1980-81	90.1	$169,292,760	$10,000,000	$179,292,760		
1981-82	98.5	$183,107,049	$20,000,000	$203,107,049		
1982-83	99.1	$200,172,626	$40,000,000	$240,172,626		
1983-84	103.6	$201,393,679	$60,000,000	$261,393,679		
1984-85	108.4	$210,536,952	$80,000,000	$290,536,952		
1985-86	112.2	$220,284,813	$100,000,000	$320,284,813		
1986-87	116.3	$228,016,810	$120,000,000	$348,016,810		
1987-88	121.7	$236,339,424	$140,000,000	$376,339,424		
1988-89	128.2	$247,305,573	$160,000,000	$407,305,573		
1989-90	134.3	$260,511,691	$180,000,000	$440,511,691		
1990-91 forward funding identified as Elder Full Funding						
1990-91	140.1	$272,912,047	$200,000,000	$472,912,047	$0	($472,912,047)
1991-92	145.2	$284,701,847	$220,000,000	$504,701,847	$366,978,000	($137,723,847)
1992-93	148.9	$295,064,995	$240,000,000	$535,064,995	$510,757,000	($24,307,995)
1993-94	150.7	$302,589,152	$260,000,000	$562,589,152	$517,948,000	($44,641,152)
1994-95	154.2	$306,250,481	$283,388,000	$589,638,481	$518,896,000	($70,742,481)
1995-96	156.6	$313,355,492	$289,962,602	$603,318,094	$530,187,000	($73,131,094)
1996-97	160.0	$318,243,838	$294,486,018	$612,729,856	$550,117,000	($62,612,856)
1997-98	N/A	$325,149,729	$300,876,365	$626,026,094	$586,946,000	($39,080,094)
Total difference 1990-91 through 1997-98 Elder Full funding vs. AB8						($925,151,565)

Funding Projection and Comparison of Elder Full Funding to AB8

Fiscal Year	June CCPI	Education Code Section 23401	Education Code Section 23402	Education Code Sections 23401 + 23402 Total	Actual Elder Full Funding (EFF) Contribution	Comparison EFF vs. AB8
1997-98	167.2					
1998-99	174.7	$339,781,467	$314,415,801	$654,197,268	$642,524,000	($936,824,833)
1999-00	182.6	$355,071,633	$328,564,512	$683,636,145	$684,685,000	($935,775,977)
2000-01	190.8	$371,049,856	$343,349,915	$714,399,771	$722,342,675	($927,833,074)
2001-02	199.4	$387,747,100	$358,800,661	$746,547,761	$762,071,522	($912,309,313)
2002-03	208.4	$405,195,719	$374,946,691	$780,142,410	$803,985,456	($888,466,267)
2003-04	217.7	$423,429,526	$391,819,292	$815,248,819	$848,204,656	($855,510,430)
2004-05	227.5	$442,483,855	$409,451,161	$851,935,016	$894,855,912	($812,589,534)
2005-06	237.8	$462,395,629	$427,876,463	$890,272,091	$944,072,987	($758,788,638)
2006-07	248.5	$483,203,432	$447,130,904	$930,334,336	$995,997,001	($693,125,973)
2007-08	259.7	$504,947,586	$467,251,794	$972,199,381	$1,050,776,837	($614,548,517)
2008-09	271.3	$527,670,228	$488,278,125	$1,015,948,353	$1,108,569,563	($521,927,307)
2009-10	283.6	$551,415,388	$510,250,641	$1,061,666,029	$1,169,540,888	($414,052,447)
2010-11	296.3	$576,229,081	$533,211,919	$1,109,441,000	$1,233,865,637	($289,627,810)
2011-12	309.6	$602,159,389	$557,206,456	$1,159,365,845	$1,301,728,247	($147,265,407)
2012-13	323.6	$629,256,562	$582,280,746	$1,211,537,308	$1,373,323,301	$14,520,586

Assumptions:	CCPI	4.5%
	Wage Inflation	5.5%

Growth in STRS' Returns



Outline of Current Funding Sources and Variables

			Percent of Payroll	Dollar Amount for 1998-99
I.	**Ongoing**			
	Source			
A.	1. Elder Full Funding current amortization period three years		4.3%	$645,555,000
	2. Reamortize the Unfunded Obligation funded entirely by Elder Full Funding over an extended period and utilize the balance for new benefits:			
	10-year period	Revised Funding Rate: 1.266% - Balance Available =	2.664%	435,564,000
	20-year period	Revised Funding Rate: 0.707% - Balance Available =	3.223%	526,960,500
	30-year period	Revised Funding Rate: 0.524% - Balance Available =	3.406%	556,881,000

OUTSIDE OF PROPOSITION 98

		Percent of Payroll	Dollar Amount for 1998-99
B.	Amount outside of Elder Full Funding derived from :		
	Reduction in normal cost from 16.00% to 15.79%	.21%	34,335,000
	Shifting administrative expenses from normal cost to a charge against the fund. Consistent with PERS funding of administrative expenses. No legislation required. Administrative action by the Board.	.25%	40,875,000
	Current unused sick leave funding available when TRF 100% funded.	.25%	40,875,000
	Current ad hoc funding available when TRF 100% funded.	.307%	50,194,500
	Totals	1.017%	166,279,500

INSIDE OF PROPOSITION 98

		Percent of Payroll	Dollar Amount for 1998-99
C.	Annual school lands revenue displayed as a percent of payroll	.0127%	2,076,450

D. Increased employee and/or employer contributions in some stated amount.

II. **One-Time**:

	Source	Amount
A.	School Land Bank Fund	$20 million
B.	Excess contribution for normal cost in 1997-98 fiscal year **Proposed: Fund SB-2224, Lee**	$30 million

@ Estimated 1998-99 Pay $16.350 billion

History of Unfunded Actuarial Obligation and Normal Cost Deficit

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6/30/95	$8.184 billion	0.07%
6/30/97	$1.872 billion	0.21% excess

* Based on graded employer contribution rate.

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AB 88 AUTHOR: Baca
TITLE: STRS: Rule of 85
AMENDED: 04/02/98
LOCATION: Senate Appropriations
POSITION: *Support

SUMMARY: Would allow a member of STRS subject to employer option, who is at least 55 years of age, (or any older age specified by the TRB,) to retire on or after July 1, 1999 with full retirement benefits if the member's age, plus years of credited service, equals or exceeds 85. April 2, 1998 amendments corrected March 23, 1998 drafting error.

COSTS: Program - No cost to system, all costs paid by employer
Administrative - Not cost to system, all costs paid by employer

P - CTA (Sponsor), ACSA, ART, BOG, CFT, CRTA, FACCC, STRS, UTLA
O - Cal-Tax

CA AB 385 AUTHOR: Goldsmith
TITLE: Home Rule School Districts
AMENDED: 01/14/98
LOCATION: Senate Education
POSITION: *Neutral, if amended

SUMMARY: Would 1) allow school districts to convert to "home rule" school districts; 2) require the Legislative Analyst to contract for evaluation of the districts; 3) provide that the districts are public school employers for collective bargaining purposes; and 4) petitions for such districts, granted by the DOE and district governing board for five years, are revocable, and may be renewed.

COSTS: Program - None
Administrative - Minor and absorbable

P - CTA, CSEA, Montebello Teachers' Association
O - None Known

*Approved by the Board

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AB 884
AUTHOR: Honda
TITLE: Compounded COLA
AMENDED: 03/02/98
LOCATION: Senate IR
POSITION: *Support, if amended

SUMMARY: Would amend the TRL to provide that beginning September 1, 1999, the "2% improvement factor" applied to benefit payments from the STRS Defined Benefit Plan shall be compounded.

COSTS: Program - 0.944% of payroll or $154 million annually (1997/98 payroll estimated $16.35 billion)
Administrative - one time cost of $196,000

P - CFT (Sponsor), ACSA, ART, BOG, CRTA, CTA, FACCC, FCPHE, UTLA
O - Cal-Tax, DOF

CA AB 1102
AUTHOR: Knox
TITLE: Unused Sick Leave Service Credit
AMENDED: 04/13/98
LOCATION: Senate Appropriations
POSITION: *Support

SUMMARY: Extends eligibility to receive credit at retirement for unused sick leave to those who became members on and after July 1, 1980, and who retire on or after January 1, 1999. April 13, 1998 amendments require employers to make fixed contributions determined by the Board.

COSTS: Program - .272% of payroll or $44.47 million annually (1997/98 payroll estimated $16.35 billion)
Administrative - Minor, absorbable

P - CTA, FACCC (Co-sponsors), ACSA, ART, BOG, CFT, CRTA, CSEA, PERS, STRS, UTLA
O - None Known

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AB 1150
AUTHOR: Prenter and Ashburn
TITLE: STRS Benefits
AMENDED: 06/22/98
LOCATION: Senate Health and Human Services
POSITION: Support, if amended (Staff Recommendation)

SUMMARY: Identical to AB-2616 (Prenter) which was held under submission in Assembly Appropriations Committee on 05/21/98. Would incrementally increase the benefit factor of 2% at age 60 to 2.418% at age 63.

COST: Program - 2.228% of payroll, $364,278,500 annually
Administrative - One time cost of $150,000, or which $100,000 is absorbable. START costs undetermined at this time

P - STRS
O- None Known

CA AB 1166
AUTHOR: House
TITLE: Minimum Standards for Community College Counselors and Librarians, Part Time and Adult Ed
AMENDED: 06/04/98
LOCATION: Senate Appropriations
POSITION: *Co-sponsor

SUMMARY: Would: 1) establish a minimum standard of 175 days or 1,050 hours for full-time service and compensation for California community college counselors and librarians; 2) clarify the minimum standard service for adult education programs, and part-time credit and non-credit and adult education community college instructors; and 3) make technical amendments to PERS law.
June 4, 1998 amendments make technical changes.

COST: Program - None
Administrative - Minor, absorbable

P - PERS, STRS (Co-sponsors), CFT, FACCC
O- None

*Approved by the Board

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AB 1744
AUTHOR: Knox, Honda & Perata
TITLE: Tobacco Investments
AMENDED: 05/07/98
LOCATION: Assembly Appropriations (Suspense file)
POSITION: *Oppose

SUMMARY: Would: 1) prohibit new or additional investments by the TRF and the PERF in tobacco companies on and after January 1, 1999; 2) require phased divestment of one-third of current holdings each year beginning January 1, 2000, and continuing until January 1, 2002; 3) require the Board to make specified investment valuations at specified intervals; declare that specified results of such valuations be considered as a normal cost deficit pursuant to Section 22955 (Elder Full Funding); and 4) require both STRS and PERS to report to the Legislature on or after January 1, 2002 regarding the effect of the divestiture on employer contribution rates. The bill provides for indemnification for Board members and their agents and employees in the event of lawsuit.

COST: Program - Annual investment losses of $28.1 million and a one time cost of $8.1 million in lost commissions, or 2.15% of the value of STRS tobacco holdings to divest in tobacco and related investments
Administrative - Possible $.9 million in commissions, or about $300,000 each of the three years, to divest in tobacco and related investments

P - Authors (Sponsors), AFSCME, ALA, CPFFA, CalPIRG, CTA, Phil Angelides for Treasurer
O - Cal-Tax, PERS, STRS, Other interested parties

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AB 2357 AUTHOR: Olberg
TITLE: State Trust Funds: Investments
AMENDED: 04/16/98
LOCATION: Returned to Chief Clerk pursuant to JR 62 (a)
POSITION: *Oppose

SUMMARY: Would require the phased out divestment of state trust money investments, until January 1, 2001, in business firms that promote musical works that encourage specified acts, including degradation of females. Failed passage in Assembly PER&SS on April 22, 1998.

COST: Program -A total of 4.99% of STRS' domestic equity portfolio consists of Entertainment/Publishing/Newspaper holdings; 26,208,669 shares with a market value of $1.812 billion
Administrative - Undetermined, substantial costs relating to initial identification and sales in divestiture, and monitoring

P - Author (Sponsor), LASDA, AGO, CPOA, CPCA
O - ACLU, FSC, MPAA PERS, RIAA, STRS

CA AB 2616 AUTHOR: Prenter
TITLE: Increased Age Factor
AMENDED: 05/14/98
LOCATION: Assembly Appropriations (Suspense File)
POSITION: *Under Study

SUMMARY: Would incrementally increase the benefit factor of 2% at age 60 to 2.418% at age 63.

COST: Program - A total contribution rate increase of 2.228% of payroll, $364,278,500 annually (1997/98 payroll estimated $16.35 billion)
Administrative - One time cost of $150,000, of which $100,000 and is absorbable; START Project costs are undetermined at this time

P - CTA (Sponsor), ACSA, ART, CFT, CRTA, FACCC, UTLA
O - Unknown

*Approved by the Board

Attachment 4
Item 8a/Board
July 9, 1998

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AB 2765
AUTHOR: Assembly PER&SS
TITLE: STRS Technical Housekeeping
AMENDED: 05/22/98
LOCATION: Senate Industrial Relations
POSITION: *Sponsor

SUMMARY: Would 1) make various technical and conforming changes to the TRL; 2) extend the sunset date to January 1, 2004 for the Golden Handshake Program; 3) extend earnings exemption for class size reduction; 4) delete requirement for quarterly asset reports to the legislature; and 5) extends the sunset date to January 1, 2005, for certain Medicare coverage

COST: Program - No net costs, any program costs paid by participating employees
Administrative - None

P - STRS (Sponsor), CFT, SSDA
O - None Known

CA AB 2766
AUTHOR: Assembly PER&SS
TITLE: Final Comp for LAUSD
AMENDED: 04/20/98
LOCATION: Senate Industrial Relations
POSITION: *Oppose

SUMMARY: Would add a definition of final compensation for specified LAUSD members and if that new definition results in a higher benefit funding would be provided by LAUSD.

COST: Program - No net costs to system; LAUSD would be required to pay the actuarial present value of any benefit increase
Administrative - Significant, approximately $500,000 for implementation of the LAUSD final compensation proposal

P - ACSA Region 16 Retired (Sponsor)
O - STRS

*Approved by the Board

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AB 2768 AUTHOR: Assembly PER&SS
TITLE: Board Elections
LOCATION: Senate Industrial Relations
POSITION: *No Position

SUMMARY: Would require that the four "teacher" members of the TRB be elected to the Board from their respective constituencies rather than appointed by the Governor.

COST: Program - None
Administrative - $614,296 per election, or $153,574 per year
Annual costs would vary according to the Board composition under election

P - PER&SS (Sponsor), ART, CTA, CFT, CRTA, FACCC
O - None Known

CA AB 2804 AUTHOR: Assembly PER&SS
TITLE: STRS' Benefits
AMENDED: 05/13/98
LOCATION: Senate Appropriations
POSITION: Support (Staff Recommendation)

SUMMARY: Would 1) provide that when the TRF achieves full-funding, a continuous General Fund appropriation shall be made to the TRF for benefit increases and educational objectives.

COST: Program - $36 million initial increase in resources to TRF from General fund, increasing annually for 17 years
Administrative - None

P - Assembly PER&SS (Sponsor), ACSA ART, CFT, CRTA, CTA, FACCC, FCPHE, UTLA
O - None Known

*Approved by the Board

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA AJR 63 AUTHOR: Prenter
TITLE: Elk Hills Naval Petroleum Reserve
AMENDED: 06/18/98
LOCATION: Senate Consent Calendar
POSITION: *Co-sponsor

SUMMARY: Would memorialize the President and Congress to approve the appropriation of specified funds from the sale of the Elk Hills Naval Petroleum Reserve for the benefit of retired members of the STRS.

COST: Program - No impact
Administrative - No impact

P - CRTA, STRS (Co-sponsors), ACSA, ART
O - None Known

CA SB 610 AUTHOR: O'Connell
TITLE: Reciprocity for '37 Act Counties
AMENDED: 06/04/98
LOCATION: Assembly Appropriations
POSITION: *Support

SUMMARY: Would extend reciprocal rights and limitations, which are applicable to members of PERS, to members of the '37 Act Counties retirement system who are also members of the STRS Defined Benefit Plan.

COSTS: Program - Minor
Administrative - Minor

P - SEIU (Sponsor), AFSCME, CSAC, SCDSA, STRS
O - DOF

*Approved by the Board

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA SB 1021 AUTHOR: Senate PE&R
TITLE: Federal Compliance
AMENDED: 01/16/98
LOCATION: Assembly PER&SS
POSITION: *Co-sponsor

SUMMARY: Amends the TRL to bring CalPERS into compliance with federal changes enacted by Congress under the Pension Simplification Act of 1996.

COSTS: Program - Unknown
Administrative - Unknown

P - PERS, STRS, and '37 Act Counties (Co-sponsors), AFSCME
O - None Known

*Approved by the Board

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
1997-98 Regular Session - June 23, 1998

BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA SB 1433 AUTHOR: Hayden
TITLE: Tobacco Investments
AMENDED: 06/15/98
LOCATION: Assembly Appropriations
POSITION: *Oppose

SUMMARY: Would: 1) prohibit new or additional investments by the TRF and the PERF in tobacco companies on and after January 1, 1999; 2) require PERS to report to the Legislature annually on and after January 1, 2003 regarding the effect on employer contribution rates of the prohibition against new or additional tobacco company investments; and 3) provides partial compensation to STRS for investment earnings losses if there is a normal cost default.

COST: Program - Unknown. Although the potential losses from divestment are no longer an issue, there would still be significant lost opportunity costs associated with the restricted definition of "tobacco company", only partially potentially compensated by General Fund.
Administrative - Unknown, but likely significant costs associated with maintaining a phantom portfolio to conform to the requirements of the annual report to the legislature, as well as monitoring all future investments against the definition of "tobacco company".

P - Author (Sponsor), AFSCME, ACS, AHA, ALA, CPFFA, CalPIRG, Phil Angelides for Treasurer
O - Cal-Tax, PERS, The Tobacco Institute

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
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BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA SB 1486 AUTHOR: Rainey
TITLE: New Option Beneficiary
AMENDED: 03/26/98
LOCATION: Assembly PER&SS
POSITION: *Support

SUMMARY: Would, under specified circumstances, authorize a retired member to designate a spouse as his or her new option beneficiary.

COST: Program - None
Administrative - Minor and absorbable

P - Constituent (Sponsor), CRTA, CTA, STRS
O - None Known

CA SB 1528 AUTHOR: Schiff
TITLE: Health Care Study
AMENDED: 05/26/98
LOCATION: Assembly PER&SS
POSITION: *Co-sponsor

SUMMARY: Would require TRB to conduct a study on health insurance, including vision and dental care, for active and retired STRS members, beneficiaries, children, and dependent parents.

COST: Program - None
Administrative - $200,000 for study appropriated in the bill.

P - CRTA, ACSA, AFSCME, CTA, FACCC, STRS
O - None Known

*Approved by the Board

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
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BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA SB 1753 AUTHOR: Schiff
TITLE: Board Investment Decisions
AMENDED: 05/27/98
LOCATION: Assembly PER&SS
POSITION: *Neutral, if amended

SUMMARY: Would 1)prescribe procedures for the consideration of specified financial matters involving vendors and contractors in closed sessions of the TRB and the Board of Administration PERS and the disclosure of gifts and campaign contributions; 2) require disclosure within 12 months and prohibits specified board member communications.

COST: Program - None
Administrative - No fiscal impact

P - Author (Sponsor), ACSA, CPFFA, CRTA, CTA, SCDSA
O - PERS (Oppose, unless amended)

CA SB 1945 AUTHOR: Karnette
TITLE: STRS Home Loan Program
LOCATION: Assembly PER&SS
POSITION: *Co-sponsor

SUMMARY: Would establish a 100% financing member home loan program providing STRS to loan up to 5% of the home's purchase price/value using up to 50% of the members'/buyers' retirement contributions as collateral.

COST: Program - No fiscal impact
Administrative - No net cost to system. All costs paid by participating members.

P - Author, STRS (Co-sponsor), ACSA, ART, CFT, CRTA, CTA, FACCC, UTLA
O - None Known

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
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BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA SB 2047 AUTHOR: Lewis
TITLE: Change in Option
AMENDED: 05/12/98
LOCATION: Assembly PER&SS
POSITION: *Sponsor

SUMMARY : Would: 1) provide Option 8 allowing a member to select more than one option beneficiary, effective January 1, 2000; 2) provide for a change from Option 4 or 5 to Option 6 or 7 under specified circumstances; and 3) provide members upon retirement under an option with the greater of the benefit determined under the option factors in place at the time of retirement or in place at the time of election of a pre-retirement election of an option.

COST: Program - No net costs to system, any selected options would be actuarially neutral
Administrative - Approximately $125,000 is estimated as the cost for system modifications, printing, and postage necessary for the implementation of the change in options and the greater of the option factors

P - STRS (Sponsor), ACSA, CFT, CTA, CRTA, Family Law Section of State Bar of California
O - None

CA SB 2085 AUTHOR: Burton
TITLE: STRS Cash Balance Plan
AMENDED: 05/04/98
LOCATION: Assembly PER&SS
POSITION: *Co-sponsor

SUMMARY: Merges the CB and the DB Plans and their respective trusts into the TRF.

COST: Program - No fiscal impact
Administrative - None

P - CFT, CRTA, FACCC, STRS (Co-sponsors)
O- PARS, SSC

STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY - REGULAR BOARD
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BILL NO. >>> STATUS <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<

CA SB 2126
AUTHOR: Senate PE&R
TITLE: Repurchase of Service Credit (SB-1027 Follow-up Bill)
AMENDED: 04/22/98
LOCATION: Assembly PER&SS
POSITION: *Sponsor

SUMMARY: Would 1) allow STRS members to take up to 120 months to pay for permissive service purchases consistent with the payback period for out-of-state service credit; 2) allow purchased out-of-state service credit to count toward vesting; and 3) authorizes the purchase of nonqualified service.

COST: Program - Minor and absorbable
Administrative - Minor and absorbable

P -STRS (Sponsor), ACSA, CFT
O- None Known

CA SB 2224
AUTHOR: Alpert
TITLE: Return to Unmodified
AMEMDED 06/11/98
LOCATION: Assembly PER&SS
POSITION: *Co-sponsor

SUMMARY: Would provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Funding for benefit from excess earnings.

COST: Program - $31 million
Administrative - Minor and absorbable

P - CRTA, STRS (Co-sponsors), ACSA (Support if amended, re: funding source), CTA
O- None Known

Revised 06/29/98 10:46:59 AM

L E G E N D OF ABBREVIATIONS

P = PROPONENTS   O = OPPONENTS

ABBREVIATION	ORGANIZATION
AALA	Associated Administrators of Los Angeles
ACCCA	Association of California Community College Administrators
ACLU	American Civil Liberties Union
ACS	American Cancer Society
ACSA	Association of California School Administrators
AFSCME	American Association of State, County and Municipal Employees
AFT	American Federation of Teachers
AGENCY	State and Consumer Services Agency
AHA	American Heart Association
ALA	American Lung Association
ALADS	Association for Los Angeles Deputy Sheriffs
ART	Association of Retired Teachers
AGO	Attorney General’s Office
BOE	Board of Equalization
BOG	Board of Governors, California Community Colleges
Cal-Tax	California Taxpayers Association
CalPIRG	California Public Interest Group
CASBO	California Association of School Business Officers
CCA	Community College Association
CCAE	California Council for Adult Education
CFA	California Faculty Association
CFT	California Federation of Teachers
CHA	California Heart Association
CPOA	California Peace Officers’ Association
CPCA	California Police Chiefs’ Association
CPFFA	California Professional Firefighters Association
CRTA	California Retired Teachers Association
CSAC	California Association of Counties
CSBA	California School Boards Association
CSEA	California School Employees Association
CSL	California Senior Legislature
CSU	California State University
CTA	California Teachers Association
DOE	Department of Education
DOF	Department of Finance
DGS	Department of General Services
DPA	Department of Personnel Administration
FACCC	Faculty Association of California Community Colleges
FCPHE	Faculty Coalition for Public Higher Education
FTB	Franchise Tax Board

L E G E N D OF ABBREVIATIONS

P = PROPONENTS   O = OPPONENTS

ABBREVIATION	**ORGANIZATION**
FSC	Free Speech Coalition
LADSA	Los Angeles Deputy Sheriffs' Association
LAUSD	Los Angeles Unified School District
MPAA	Motion Picture Association of America, Inc.
OCDE	Orange County Department of Education
PARS	Public Agency Retirement System
PRF	Public Employees Retirement Fund
PERS	Public Employees Retirement System
RPEA	Retired Public Employees Association
RIAA	Recording Industry Association of America
SACRS	State Association of County Retirement Systems
SCDSA	Sacramento County Deputy Sheriffs Association
SBMA	Supplemental Benefit Maintenance Account
SDCOE	San Diego County Office of Education
SEIU	Service Employees International Union
SLC	State Lands Commission
SSC	School Services of California
SSDA	Small School Districts' Association
START	State Teachers' Automation Redesign Team
STRS	State Teachers' Retirement System
TFD	Teachers for Fair Disability
TRB	Teachers' Retirement Board
TRF	Teachers' Retirement Fund
TRL	Teachers' Retirement Law
USERRA	Uniformed Services Employment and Reemployment Rights Act
UTLA	United Teachers Los Angeles

STANDING COMMITTEES OF THE ASSEMBLY/SENATE

Assembly PER&SS	Assembly Public Employees Retirement and Social Security
Senate IR	Senate Industrial Relations